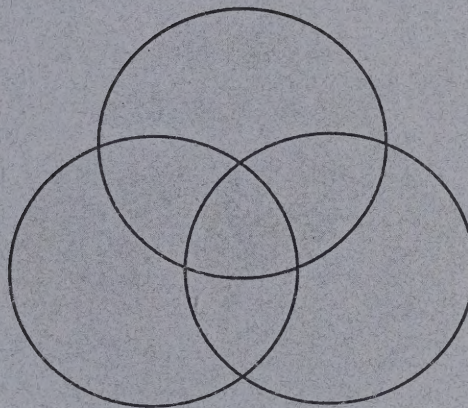


**AR06**

Winspear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

## **NEWGATE RESOURCES LTD.**

### **1995 Annual Report**



1030, 520-5th Avenue S.W.  
Calgary, Alberta T2P 3R7



## REPORT TO SHAREHOLDERS

The year 1995 was a year of uncertainty and anxiety for Newgate. These conditions were created by the failure of the 1994 rights offering financing, lower than anticipated oil and gas prices, lower than anticipated levels of oil production and a shortage of money necessary for adequate growth. Newgate also suffered through the failure of a joint venture participant not being able to pay its share of capital costs in an exploration and development project. Newgate took a loss that added to the Newgate asset base.

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### Newgate Resources Ltd.

#### Corporate Profile

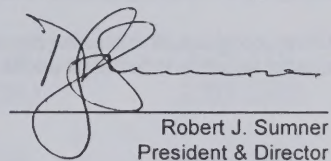
*Newgate Resources Ltd. is a growing junior public company engaged in oil and natural gas exploration, acquisition and production activities in the province of Alberta. The company was founded in June 1993, is Calgary based and trades on the Alberta Stock Exchange, under the symbol "NGT".*

*Newgate focuses its operations on low to medium risk exploration and development drilling opportunities and strategic acquisitions that provide immediate cash flow. The Company strives for an equal weighting between oil and gas production to provide stability against product price fluctuations. Newgate continues to increase its financial, assets, and production base, principally by building on the operations it established during 1993 in the Wainwright area of Alberta, and by pursuing technically sound prospects in selected areas of eastern and central Alberta. Since company inception, Newgate has demonstrated an ability to grow via drilling without the benefit of a major acquisition.*

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Robert J. Sumner  
President & Director

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Spring 1995

## Business Objectives/Plan

- > Growth by selective exploration and development drilling; augment with acquisitions.
- > Generate prospects and retain operatorship with meaningful working interests.
- > Reach critical mass via growth in net asset value and cash flow per share.
- > Target investments with high cash flow returns to maximize per share impact.
- > Strengthen capital structure by reducing debt and using off-balance sheet funding.
- > Maximize upside while minimizing risk in all aspects of company's operations.
- > Maintain low reserve additions costs while replacing production on a year over year basis.

## Competitive Advantage

### Experienced management team

- > Over 100 years of industry experience.

### Well respected and active Board of Directors

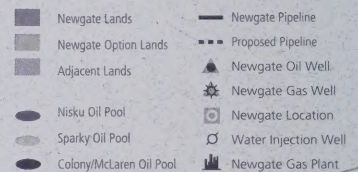
- > Provides excellent oil industry and service sector network.

### Focused operations

- > Wainwright core area.
- > Highly selective land acquisition minimizes costs.

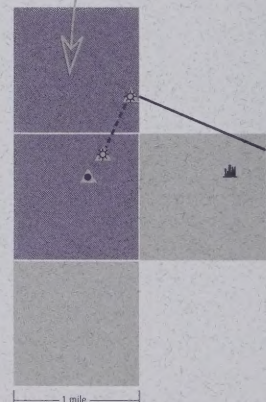
### Proven exploration/development team

- > Expertise in delineating elusive reservoirs.
- > Plains exploration specialists with broad background in both clastic and carbonate plays.
- > Ability to generate technically sound, profitable drilling opportunities anywhere in Western Canada.
- > Emphasize integrated disciplines (i.e. geology, geophysics, engineering, marketing).



### Growth maintained via the drillbit

- > Ability to grow without benefit of property acquisitions.
- > Proven record of effective risk management.
- > Emphasize farmins to effectively maximize available drilling funds.



Date	
Jun 9	
Jul 93	
Sep 9	
Oct 9	
Dec 9	
Mar 9	
May 9	
Jun 9	
Aug 9	
Oct 9	
Nov 9	
Dec 9	
Feb 9	
Mar 9	
1995	

## REPORT TO SHAREHOLDERS

The year 1995 was a year of uncertainty and anxiety for Newgate. These conditions were created by the failure of the 1994 rights offering financing, lower than anticipated oil and gas prices, lower than anticipated levels of oil production and a shortage of money necessary for adequate growth. Newgate also suffered through the failure of a joint venture participant not being able to pay its share of capital costs in an exploration and development project. Newgate took lid add to the Newgate asset base.

### Newgate Major Exploration Areas

#### Ribstone

Operated working interest of 31.25%.

Colony gas net production of 250 mcf/d.

McLaren heavy oil and Sparky oil exploitation potential.

Third party gas processing revenue potential.

#### Chigwell

> Non-operated interests ranging from 7.5% to 22.5%.

> Current net production 40 Bbl/d of high-netback, light gravity Leduc oil.

> Two 3D seismic surveys acquired to date.

#### Miscellaneous

> Non-operated, unitized, working interests of 1% to 3%.

> Principal properties at East Rose Creek, Skiff and Ewing Lake.

> Current net production of 12 Bbl/d.

#### Wildmere

> Operated working interest of 100% on internally generated exploration project.

> Seismically defined Colony gas anomalies adjacent to gas infrastructure.

> 3,360 net acres under lease.

> Three firm drilling locations.

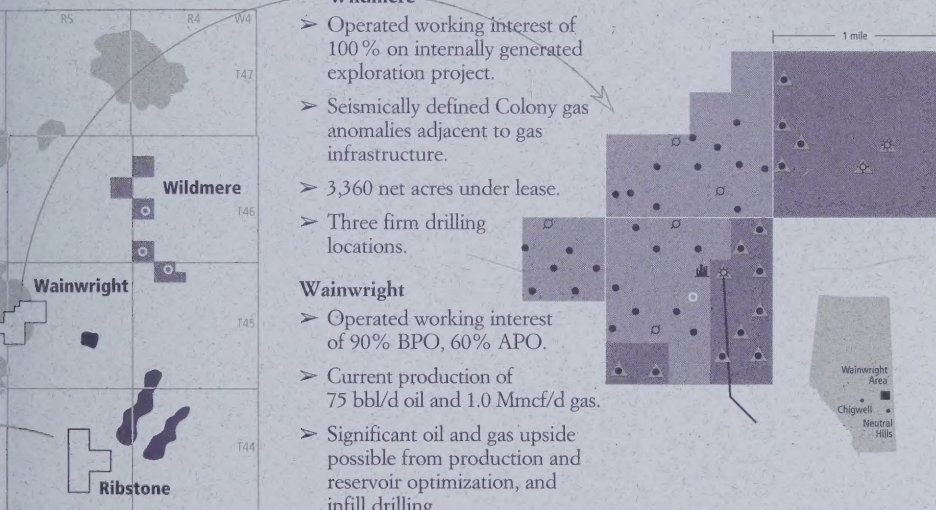
#### Wainwright

> Operated working interest of 90% BPO, 60% APO.

> Current production of 75 bbl/d oil and 1.0 Mmcf/d gas.

> Significant oil and gas upside possible from production and reservoir optimization, and infill drilling.

> Prospective offsetting lands under option.

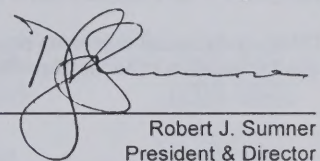


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Robert J. Sumner  
President & Director

### Corporate History

	Net Asset Value	Cash Flow	Revenue
formed by amalgamation of two JCP companies.	\$ 360,000	\$ 54,000	\$ 137,000
raised \$ 1,200,000 in new equity financing.			
drilled 7 development oil wells at Wainwright.			
established exploration team/infrastructure.			
drilled 2 development oil wells and one gas well.			
first exploration well; Ribstone oil discovery.	\$ 1,150,000	\$ 530	\$ 250,000
commissioned Wainwright gas facility.			
participated in development Leduc oil well.			
raised \$ 1,200,000 in private placement.			
operated first well, Ribstone oil and gas discovery.			
raised \$ 300,000 in rights offering.			
drilled successful Ribstone development gas well.			
commissioned Ribstone gas facility.	\$ 3,880,000	\$ 302,000	\$ 1,100,000
participated in exploration well; Leduc oil discovery.			
3rd Quarter 1995 results		\$ 203,344	\$ 361,203
annualized		\$ 700,000	\$ 1,400,000

ded in this total are gas marketing profits through spot market purchases. The sustained levels of production resulted in a decline at Ribstone, coupled with the to shut in production on November 1,

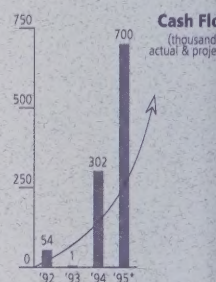
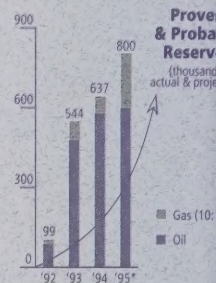
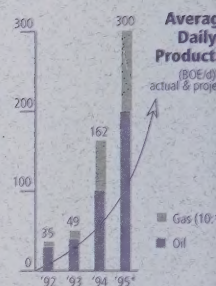
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## Highlights

Net Asset Value	\$ 3,880,000 or \$ 0.12 per share
Annualized 1995 Cash Flow from Operations	\$ 700,000
Bank Debt	\$ 1,750,000
Proven plus Probable Reserves	599,130 BOE
Current Production	125 Bbl/d Oil
	1.25 Mmcf/d Gas
Targeted 1995 Exit Production	300 BOE
Undeveloped land	6,100 Gross Acres
	4,488 Net Acres
Shares Outstanding	30,168,000 Basic
	32,925,000 Fully Diluted
Operating production	80 percent
Average working interest	50 percent
Target oil:gas weighting	50:50



## Corporate Information

### Office

1030, 520 - 5th Avenue S.W. Calgary, Alberta, T2P 3R7  
Phone (403) 237-5904 Fax (403) 261-6803

### Listing

Alberta Stock Exchange (NGT) Shares Issued: 30,167,652

### Directors and Officers

Robert J. Sumner, P. Eng., Director President, Co-Chairman	Calgary, Alberta
Arthur P. Cox, Director Vice President, C.F.O., Secretary	Calgary, Alberta
Kenton R. Donaldson, P. Geoph. Vice President, Exploitation	Calgary, Alberta
John N. Ostrom, P. Geol Vice President, Exploration	Calgary, Alberta
James K. Fleming, Director C.E.O., Operations Manager, Co-Chairman	Calgary, Alberta
S. Patrick Shouldice, Director Chairman & C.E.O. of Nowsco Well Service Ltd.	Calgary, Alberta
Harvey A. Trimble, Director President & Director of Trimble Resources Ltd.	Calgary, Alberta
Peter Turner, Director Investment Consultant	Toronto, Ontario

## REPORT TO SHAREHOLDERS

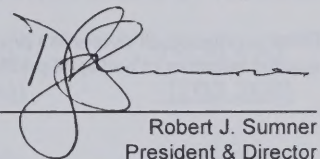
The year 1995 was a year of uncertainty and anxiety for Newgate. These conditions were created by the failure of the 1994 rights offering financing, lower than anticipated oil and gas prices, lower than anticipated levels of oil production and a shortage of money necessary for adequate growth. Newgate also suffered through the failure of a joint venture participant not being able to pay its share of capital costs in an exploration and development project. Newgate took action and ended up with a settlement which did not solve the cash crunch but did add to the Newgate asset base.

Further to the financing problems, Newgate's bank issued a deficiency letter to Newgate because of its inability to provide curtailment of the revolving loan and to provide payment of a demand loan. The bank has been cooperative in the efforts we have undertaken to provide a solution and we expect the situation to be resolved early in 1996. Newgate has an extensive list of accounts payable and creditors. This has not been an easy time for the creditors and their patience has been appreciated.

Newgate contracted Sayer Securities in April, 1995 to find a suitable merger candidate. An information package on Newgate was provided to over 200 public companies. Serious discussions took place with 10 companies with agreement being reached with two companies. The first proposed merger collapsed when the target company (Vista International Petroleum Ltd.) fell victim to an unsolicited takeover and the second proposed merger ended when the target company (Clayoquot Resources Ltd.) could not provide satisfactory arrangements with Newgate's bank. Such events occur in business but the "time-elapsed" factor is very frustrating when four to six months go by and efforts directly aimed at mergers and consolidations have accomplished nothing tangible. Another candidate (Para-Tech Energy Inc.) and Newgate signed a letter of intent to merge in 1996.

In retrospect, Newgate has spent most of its efforts in solving banking deficiencies, staying off creditors and in achieving a merger. 1995 was one of those years when it was not possible for companies the size of Newgate to grow. This of course is a cyclical occurrence. In circumstances like this, expenses have to be trimmed. The contract of Solstice Petroleum Limited was terminated effective December 31, 1995 and Mr. Jim Fleming resigned as CEO and Operations Manager to pursue another opportunity in the servicing business.

The remaining officers of Newgate have worked extremely hard to keep Newgate in business. The support of the Board and shareholders is much appreciated.



Robert J. Sumner  
President & Director

## FINANCIAL REVIEW

### REVENUE AND OPERATING EXPENDITURES

Total revenue of \$1,030,503 remained at basically the same level of 1994. Included in this total are gas marketing profits of \$105,242 arising out of our efforts to fulfill contracted gas commitments through spot market purchases. The economic failure of production tests at Chigwell to produce the anticipated sustained levels of production resulted in a significant reduction of projected income. Greater than anticipated production declines at Ribstone, coupled with the inability to place a second drilled well on production resulted in the decision to shut in production on November 1, contributing to Newgate's 1995 production income decline of \$88,398.

Operating expenses increased to \$365,361 from \$322,326 in 1994 principally as a result of higher repair and maintenance costs of production and compression equipment. This increase combined with a \$119,335 increase in bank interest paid in 1995 contributed significantly to Newgate's Cash Flow from Operations decrease to \$121,774 from \$302,203 in 1994.

As detailed in the financial statement notes (note 3), Newgate incurred a writedown of \$795,000 on its properties and equipment in 1995. This amount is included in the depreciation and depletion charge of \$1,347,236 in our financial statements.

### FINANCING ACTIVITIES

A delinquent joint venture partner who failed to pay in excess of \$250,000 in development costs combined with the companies inability to raise equity capital resulted in the decision undertaken to merge Newgate with a stable, well financed and organized company which recognized Newgate's undeveloped opportunities. These efforts, which were undertaken in the second quarter, resulted in negotiations leading to the execution, in two instances, of a letter of intent with public companies. Both were terminated due to a hostile bid takeover of one merger candidate and the inability to reach agreeable financial terms in the second instance. Efforts continued to year-end resulting in the execution of a third letter of intent with Para-Tech Energy Inc. early in 1996. The going concern comments referenced in note 2 (a) of the notes to the financial statements describe succinctly the recognition of Newgate's viability in 1996.

## OPERATIONS REVIEW

### WAINWRIGHT

Wainwright oil production provided good cash flow to the Company. Oil prices were disappointing early in the year but did recover in the last quarter. Newgate is conducting discussions with the Operator of Wainwright Unit 18 with a view to joining the Unit at the earliest possible date which will be sometime during the spring of 1996. Wainwright gas production was better than expected and the price was good until the contract year ended October 31, 1995.

### CHIGWELL

At Chigwell, Newgate farmed out its interest in a second well which was successfully drilled just before spring breakup. Environmental concerns precluded both wells from producing since spring breakup. This resulted in the loss of the Chigwell reserves as security to the bank thus causing part of the banking problem. Eventually, the second well was put on production for a limited (6 months) test and the operator undertook to acquire a salt water disposal facility and to outline a plan to produce the wells without the ongoing environmental problems. The capital costs were considered to be prohibitive and Newgate is contemplating selling its working interest.

### RIBSTONE

The Ribstone producing gas well was shut in at the end of October, 1995 due to impending lower gas prices. Continuation of production would have been uneconomical in view of high compressor rental costs. Negotiations are underway with a gas purchaser's subsidiary company to acquire the pipeline, dehydration and compression facilities from the Newgate group. This transaction will allow the tying-in of the 102/10-10 well. With both wells on production and with lower anticipated operating costs and favorable current gas prices, this will be a good source of revenue for Newgate. Ribstone oil reserves though substantial are in the "heavy" oil category. Exploitation of these reserves will likely have to be undertaken with other industry partners due to the required capital expenditures.

### WILDMERE

Newgate has a 90% working interest in 5 1/2 sections at Wildmere. This is good prospective gas acreage and a joint venture partner is being sought to provide the necessary funds to develop the property. This should be readily achieved since gas prices show signs of strengthening and stabilizing. This development will obviously mean a great deal to Newgate in improving its asset and revenue base.

Other producing oil properties provided minor but steady revenue through the year and the revenue was better in the last quarter because of better oil prices.

## AUDITOR'S REPORT

To the Shareholders  
Newgate Resources Ltd.

We have audited the balance sheets of Newgate Resources Ltd. as at December 31, 1995 and 1994 and the statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994 and the results of its operations and cash flow for each of the years then ended in accordance with generally accepted accounting principles.

*Collins Barrow*

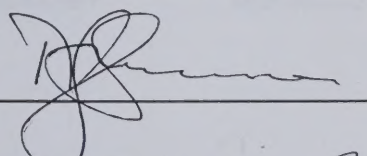
Chartered Accountants

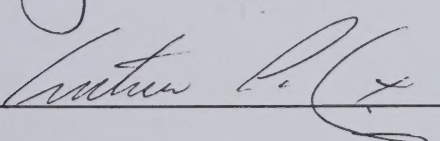
Calgary, Alberta  
February 22, 1996

# BALANCE SHEETS

	December 31,	
	1995	1994
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 123,536	\$ 787,254
Property and equipment (note 3)	<u>3,384,900</u>	<u>4,063,309</u>
	<u>\$3,508,436</u>	<u>\$4,850,563</u>
 <b>Liabilities</b>		
Current liabilities		
Bank indebtedness (note 4)	\$1,665,071	\$1,769,802
Accounts payable and accrued liabilities	<u>706,575</u>	<u>736,509</u>
	<u>2,371,646</u>	<u>2,506,311</u>
 Provision for future site restoration costs	<u>36,000</u>	<u>18,000</u>
 <b>Shareholders' Equity</b>		
Share capital (note 5)	2,553,124	2,529,520
Deficit	<u>(1,452,334)</u>	<u>(203,268)</u>
	<u>1,100,790</u>	<u>2,326,252</u>
	<u>\$3,508,436</u>	<u>\$4,850,563</u>

Approved by the Board,

  
 \_\_\_\_\_, Director

  
 \_\_\_\_\_, Director

# STATEMENTS OF LOSS AND DEFICIT

	Years ended December 31,	
	1995	1994
<b>Revenue</b>		
Oil and gas sales	\$ 944,542	\$1,050,970
Less: Royalties	<u>82,690</u>	<u>100,720</u>
	861,852	950,250
Gas marketing income	105,242	1,519
Interest	21,416	806
Alberta royalty tax credit	<u>41,993</u>	<u>56,579</u>
	<u>1,030,503</u>	<u>1,009,154</u>
<b>Expenses</b>		
Operating	365,361	322,326
Interest	165,101	45,766
General and administrative	<u>378,267</u>	<u>338,859</u>
	<u>908,729</u>	<u>706,951</u>
Cash flow generated from operations	121,774	302,203
Depletion and depreciation	<u>1,347,236</u>	<u>432,447</u>
Loss before income taxes	1,225,462	130,244
Income taxes (note 6)	<u>23,604</u>	<u>26,236</u>
Net loss	1,249,066	156,480
Deficit, beginning of year	<u>203,268</u>	<u>46,788</u>
Deficit, end of year	<u>\$1,452,334</u>	<u>\$ 203,268</u>
Net loss per share	<u>\$ 0.041</u>	<u>\$ 0.006</u>

<b>STATEMENTS OF CASH FLOW</b>
--------------------------------

	<b>Years ended December 31,</b>	
	<b>1995</b>	<b>1994</b>
<b>Operating activities</b>		
Net loss	\$(1,249,066)	\$( 156,480)
Add items not requiring cash		
Depletion and depreciation	1,347,236	432,447
Income taxes	<u>23,604</u>	<u>26,236</u>
	121,774	302,203
Net change in non-cash working capital balances	<u>137,584</u>	<u>(163,571)</u>
	<u>259,358</u>	<u>138,632</u>
<b>Financing activities</b>		
Issuance of share capital	-	1,602,607
Share issuance costs	<u>-</u>	<u>(233,616)</u>
	<u>-</u>	<u>1,368,991</u>
<b>Investing activities</b>		
Proceeds on disposal of property and equipment	10,476	-
Acquisition of property and equipment	(661,303)	(2,732,654)
Net change in non-cash working capital balances	<u>496,200</u>	<u>(459,390)</u>
	<u>(154,627)</u>	<u>(3,192,044)</u>
Cash inflow (outflow)	104,731	(1,684,421)
Bank indebtedness, beginning of year	<u>(1,769,802)</u>	<u>( 85,381)</u>
Bank indebtedness, end of year	<u>\$(1,665,071)</u>	<u>\$(1,769,802)</u>

**1. Company activities**

The Company's activities are the acquisition of petroleum and natural gas rights and interests and the exploration for, and the development and production of, crude oil and natural gas.

**2. Significant accounting policies**

**(a) Going concern**

These financial statements have been prepared in accordance with generally accepted accounting principles. An assumption underlying the preparation of financial statements in accordance with generally accepted accounting principles is that the company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions cast substantial doubt upon the validity of this assumption. The company has incurred significant operating losses over the past two years and has a substantial working capital deficiency. In addition, the company is in breach of certain financial covenants relating to its bank credit facilities and has not met its principal repayment schedule.

The company has negotiated revisions to its principal repayment schedule with the bank but is still in technical violation of the financial covenants. The company's continued existence is dependent upon its ability to successfully meet the revised terms of its credit facility and to restore and maintain profitable operations.

These financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate because management believes that the actions already taken or planned, as described above, will mitigate the adverse conditions which raise doubts about the validity of the "going concern" assumption used in preparing these financial statements.

If the "going concern" assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported expenses and the balance sheet classifications used.

**(b) Exploration and development costs**

The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves in Canada are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Depletion and depreciation is provided for using the unit-of-production method based on estimated gross proven oil and gas reserves as determined by independent and company engineers with gas converted to oil on an energy equivalent basis.

Costs subject to depletion under the full cost method also include estimated future removal and site restoration costs. This would include the cost of production equipment removal and environmental cleanup based upon regulations and economic circumstances at year-end. The current year's provision for future removal and site restoration costs is included in depletion and depreciation expense.

In applying the full cost method, the company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes.

**(c) Joint ventures**

Substantially all of the exploration and production activities of the company are conducted jointly with others and, accordingly, the accounts reflect only the company's proportionate interest in such activities.

(d) Depreciation

Lease and well equipment are depreciated using the unit-of-production method. Other equipment is depreciated using the declining balance method at rates varying from 20% to 100% per annum.

(e) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration, development and land expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company.

Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(f) Net loss per share

Net loss per share is calculated using the weighted average number of common shares of 30,167,652 (1994 - 26,780,169) outstanding during the year. The exercise of stock options would not be dilutive.

3. Property and equipment

	Cost	Accumulated Depletion and Depreciation	Net Book Value	
			1995	1994
Petroleum and natural gas properties including exploration and development thereon	\$3,569,245	\$1,308,217	\$2,261,028	\$2,690,327
Lease and well equipment	1,825,628	713,648	1,111,980	1,346,048
Other equipment	<u>45,822</u>	<u>33,930</u>	<u>11,892</u>	<u>26,934</u>
	<u>\$5,440,695</u>	<u>\$2,055,795</u>	<u>\$3,384,900</u>	<u>\$4,063,309</u>

As at December 31, 1995, the "cost ceiling" (based on prices in effect at December 31, 1995 and calculated as described in [note 2(b)]) of the petroleum and natural gas properties was less than the capitalized cost of those assets by approximately \$795,000. As a result, the corporation wrote down property and equipment by \$795,000. This write down is included in depletion and depreciation expense.

Future removal and site restoration costs are estimated in aggregate to be \$160,500, of which \$18,000 (1994 - \$15,700) has been charged to current earnings.

During the year, the company capitalized general and administrative expenses in the amount of \$110,000 (1994 - \$154,131) and interest in the amount of \$NIL (1994 - \$30,379).

Property having net book value of \$740,355 (December 31, 1994 - \$846,700) for accounting purposes has a nil cost for income tax purposes.

Unproven properties in the amount of \$636,305 (December 31, 1994 - \$566,729) were excluded from costs subject to depletion.

4. Bank indebtedness

	1995	1994
Bank overdraft	\$ 23,816	\$ 197,674
Revolving term loan	1,246,255	1,322,128
Demand note	-	250,000
Non-revolving term loan	<u>395,000</u>	<u>-</u>
	<u>\$ 1,665,071</u>	<u>\$ 1,769,802</u>

The revolving term loan consists of a credit facility to a maximum of \$1,390,000 bearing interest at prime plus 1.0% and requiring monthly principal repayments of \$45,000. During the year, the demand note and a portion of the revolving term loan were refinanced with a non-revolving term loan bearing interest at prime plus 1.25%. The full principal amount of the non-revolving term loan is due March 18, 1996. The company has provided security for the credit facilities by way of a general security agreement, a specific assignment of certain properties, a \$2,000,000 floating charge debenture on all other assets, a general assignment of book debts, an assignment of natural gas sales contracts and a letter of undertaking not to pledge assets of the company for any other loans.

As at December 31, 1995, the company is in default of certain financial covenants and has not met its principal repayment schedule, therefore, the term loans have been classified as current.

## 5. Share capital

- (a) Authorized
  - Unlimited number of common voting shares
  - Unlimited number of first preferred non-voting shares
  - Unlimited number of second preferred voting shares

Authorized share capital of the company was amended May 29, 1995 to include the shares described above and to remove the previously authorized preferred shares of which none had been issued.

- (b) Issued

Common Shares	Number	Stated Value
Balance, December 31, 1993	22,571,234	\$1,228,196
Issued to two executive officers for cash pursuant to a private placement	292,600	79,002
Issued in satisfaction of accrued and unpaid remuneration to certain executive officers	117,400	27,000
Issued pursuant to Special Warrants (note 5[c])	6,000,000	1,200,000
Issued pursuant to public offering (note 5[d])	1,186,418	296,605
Reduction in respect of income tax deductions renounced to subscribers	-	(62,784)
Balance, December 31, 1994 and December 31, 1995	<u>30,167,652</u>	2,768,019
Less: Share issuance costs: net of tax benefit from deducting share issuance costs, \$49,840 (1994 - \$26,236)		<u>214,895</u>
		<u>\$2,553,124</u>

- (c) On May 30, 1994, the company issued 6,000,000 Special Warrants at a price of \$0.20 per Special Warrant for aggregate proceeds of \$1,200,000. Each Special Warrant entitled the holder thereof to acquire, without additional consideration, one common share and one warrant of the company at any time until October 31, 1994. On September 8, 1994, the company filed a final prospectus to qualify for the distribution of 6,000,000 common shares and 6,000,000 warrants issuable on the exercise of the Special Warrants. On October 20, 1994, 6,000,000 common shares and 6,000,000 warrants were eligible to be distributed upon the exercise of the Special Warrants and were subsequently issued. Each warrant entitled the holder to acquire an additional common share at a price of \$0.30 per share until expiry on September 30, 1995. All warrants expired in 1995 without exercise.

- (d) On September 8, 1994, the company filed a final prospectus to qualify for the distribution of 6,000,000 Special Warrants [note 5(c)] and 2,872,655 units upon the exercise of 22,981,234 rights. Eight rights entitled the holder thereof to acquire one unit at a price of \$0.50 per unit until expiry on October 20, 1994. Each unit consisted of one common share and one flow-through common share with stated values of \$0.20 and \$0.30

respectively, and one warrant. Each warrant entitled the holder to acquire an additional common share at a price of \$0.30 per share until expiry on September 30, 1995.

On October 20, 1994, 593,209 units were eligible to be distributed upon the exercise of 4,745,672 rights and 593,209 common shares, 593,209 flow-through common shares and 593,209 warrants were subsequently issued. In addition, the company granted its agent an option to purchase 29,660 units consisting of two common shares and one warrant at a price of \$0.50 per unit until expiry on October 20, 1995. Each warrant entitled the agent to acquire an additional common share at a price of \$0.30 per share on or before September 30, 1995. All agent's options and warrants expired in 1995 without exercise.

- (e) During 1993, the company entered into stock option agreements with directors of the company under which 1,407,123 common shares have been reserved for issuance. These options are currently exercisable until expiry on June 18, 1996. During the year, the exercise price of these options was amended from \$0.25 per share to \$0.10 per share with the approval of the shareholders and the Alberta Stock Exchange.

During 1993, the company entered into stock option agreements with two executive officers of the company under which 500,000 common shares were reserved for issuance. During the year, the exercise price of those options was amended from \$0.28 per share to \$0.10 per share with the approval of the shareholders and the Alberta Stock Exchange. Subsequently, these options were cancelled due to the resignation of the executive officers.

During 1994, the company entered into stock option agreements with certain executive officers and directors of the company under which 850,000 common shares have been reserved for issuance. During the year, 700,000 options were cancelled due to the resignation of certain executive officers. The 150,000 stock options remaining at December 31, 1995 are exercisable at a price of \$0.12 per share, one-third per year beginning November 3, 1995, until expiry on November 3, 1998.

## 6. Income taxes

- (a) Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 44.58% (1994 - 44.34%) to loss before income taxes. The difference results from the following:

	1995	1994
Expected income tax recovery	\$ (546,801)	\$ (57,750)
Increase (decrease) resulting from:		
Non-deductible crown payments, net of Alberta royalty tax credit	7,262	8,512
Resource Allowance	(40,751)	(39,310)
Depletion on non-tax based assets	47,451	41,714
Reduction resulting from utilization of losses not previously recognized	-	(44,331)
Benefit of loss carryforward not recognized	4,042	-
Deferred tax benefit not recognized	549,960	111,876
Other	<u>2,441</u>	<u>5,525</u>
	<u>\$ 23,604</u>	<u>\$ 26,236</u>

For income tax purposes, the current income tax expense is offset by the benefit from deducting share issuance costs.

The income tax benefit from share issuance costs is deducted from share issuance costs when realized. Share issuance costs available for deduction against future taxable income, for which no benefit has been recognized in the financial statements, total \$152,617 (December 31, 1994 - \$205,564).

(b) The company has estimated non-capital losses available which may be applied to reduce taxable income of future years until expiry as follows:

1996	\$ 16,300
1997	16,100
1998	7,000
2000	56,400
2002	<u>9,000</u>

\$104,800

No benefit with respect to these losses has been recognized in the financial statements.

**7. Contingent liability**

A letter of guarantee in the amount of \$25,000 has been posted by a Canadian chartered bank on Newgate's behalf.

**8. Subsequent events**

Subsequent to year end, Newgate sold its interest in the Chigwell area, effective February 1, 1996 for proceeds of \$200,000.

Subsequent to year end, Newgate has entered into a non-binding letter of intent with the shareholders of Para-Tech Energy Inc. (Para-Tech) to acquire all the issued and outstanding shares of Para-Tech through the issuance of 125,000,000 Newgate common shares at \$.02 per share. Should this transaction occur, the result will be a reverse takeover of Newgate by Para-Tech's shareholders, as the shares held by the current shareholders of Newgate would constitute less than 20% of the total shares issued after completion of the transaction.

## CORPORATE INFORMATION

### Directors and Officers

<i>Robert J. Sumner, P. Eng. Director President, Chairman</i>	<i>Calgary, Alberta</i>
<i>Arthur P. Cox, Director Vice President, C.F.O., Secretary</i>	<i>Calgary, Alberta</i>
<i>James K. Fleming, Director G. M. of Petrol Well Servicing</i>	<i>Calgary, Alberta</i>
<i>S. Patrick Shouldice, Director Chairman &amp; C.E.O. of Nowsco Well Service Ltd.</i>	<i>Calgary, Alberta</i>
<i>Harvey A. Trimble, Director President &amp; Director of Trimble Resources Ltd.</i>	<i>Calgary, Alberta</i>
<i>Peter Turner, Director Investment Consultant</i>	<i>Toronto, Ontario</i>

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### Office

1030, 520 - 5th Avenue S.W.  
Calgary, Alberta T2P 3R7  
Phone (403) 237-5904  
Fax (403) 261-6803

### Registrar and Transfer Agent

Montreal Trust Company of Canada  
600, 530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

### Bankers

Bank of Nova Scotia  
Calgary Commercial Banking Centre  
240 - 8th Avenue S.W.  
Calgary, Alberta T2P 2N7

### Auditors

Collins Barrow Chartered Accountants  
1400 First Alberta Place  
777 - 8th Avenue S.W.  
Calgary, Alberta T2P 3R5

### Solicitors

Milner Fenerty Barristers and Solicitors  
30th Floor, 237 - 4th Avenue S.W.  
Calgary, Alberta T2P 4X7

Blain & Company Barrister and Solicitors  
Encor Place  
1000, 645 - 7th Avenue S.W.  
Calgary, Alberta T2P 4G8

### Listing

Alberta Stock Exchange (NGT)  
Shares Issued: 30,167,652

## ABBREVIATIONS

ARTC	Alberta Tax Credit
Bbls(s)	Barrel(s)
Bcf	Billion cubic feet
BOE	Barrel of oil equivalent (10mcf = 1BOE)
BOPD	Barrels of oil per day
M	Thousand
mcf	Thousand cubic feet
Mmcf	Million cubic feet
NGL	Natural gas liquids
/d	Per day
WTI	West Texas Intermediate



